

ADOPTED 2007 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

OPERATING AUTHORITY & PURPOSE

Pursuant to the provisions of Section 59.51(2) of the Wisconsin Statutes, the County Board may represent the County and have management of the

business and concerns in all cases where no other provision is made.

BUDGET SUMMARY				
	2005 Actual	2006* Budget	2007 Budget	2006/2007 Change
Health Benefits-Hospital, Professional, Major Medical & Dental	\$ 120,243,817	\$ 125,166,827	\$ 135,110,570	\$ 9,943,743
Employee Group Life Insurance	2,089,718	1,683,661	1,767,800	84,139
Annuity - County Mandatory Contribution	45,185	42,000	42,000	0
Retirement System Contribution-OBRA	365,000	462,000	529,000	67,000
Retirement System Contribution	35,370,000	27,400,000	49,265,000	21,865,000
Medicare Reimbursement to Retired Employees	4,662,442	5,329,377	5,876,000	546,623
Health Benefits and Retirement - Consultant Fees	99,813	183,833	350,000	166,167
Local Transportation (Transit Pass Program)	349,361	342,162	540,204	198,042
Other Contributions	1,141,203	1,328,084	1,328,084	0
Personnel Related Costs	0	0	128,837	128,837
Actual Adjustment	9,950	0	0	0
Total Expenditures	\$ 164,376,489	\$ 161,937,944	\$ 194,937,495	\$ 32,999,551
Abatements	(155,198,381)	(153,803,899)	(191,244,217)	(37,440,318)
Total Direct Revenue	\$ 8,055,820	\$ 8,134,045	\$ 7,911,590	\$ (222,455)
Direct Property Tax Levy	\$ 1,122,288	\$ 0	\$ (4,218,312)	\$ (4,218,312)

The 2007 Adopted Budget reflects a change in the methodology in which fringe benefit costs are allocated to departmental budgets. In prior years these costs, which include health and life insurance and retirement benefits for both active and inactive (including retirees) employees were allocated to departments as a percentage of salaries. For 2007, the County Executive's Recommended Budget converted the fringe benefit percentage rate to a fixed lump sum dollar amount for each benefit eligible position WITHOUT COUNTY BOARD INPUT OR POLICY REVIEW. In addition to the concerns about the equity of such an approach, it also distorts the amount of actual fringe benefit compensation that an active employee receives. The Department of Audit recently calculated the actual fringe benefit rate for post-1993 hires (not eligible for paid retiree health insurance) as approximately 38% of salary costs. The 2007 Recommended Budget includes a lump-sum dollar amount that, if converted to a percentage of salaries, is approximately 78%. The difference is primarily due to the fringe benefit costs for inactive and retired employees that are allocated to the current workforce.

Primarily because of crosscharges and related revenues, a modification to this new methodology of allocating fringe benefit costs would be complex once the base budget is constructed. Therefore, it is recognized that any new policy should be enacted at the beginning of a new budget year.

* Approximately \$117,000,000 was budgeted for health insurance expenditures for 2006. In addition, the 2006 Budget estimated an additional \$10,200,000 in cost savings further reducing health insurance expenditures to \$106,800,000. The \$10,200,000 in additional cost savings was reflected in the Appropriation for Contingencies (Org. Unit 1945) and Wage Supplemental (Org. Unit 1972) accounts in the 2006 Budget.

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County Board and Department of Audit staff, working in consultation with the Controller and Director, Department of Administrative Services, shall study alternative options to allocate fringe costs to departmental budgets. The study shall include, but not be limited to, exploring options to quantify and allocate actual fringe benefit costs of active employees separate from inactive or retired employees. A staff report shall be submitted to the Committees on Finance and Audit and Personnel for consideration at its March 2007 meetings, with the goal of implementing any subsequent new policy on the allocation and presentation of fringe benefit costs for 2007 and the beginning of the 2008 Budget process.

A new Division of Employee Benefits is created within the Department of Administrative Services to manage the \$199,174,000 fringe benefits program, including the \$135,110,000 health care benefit and the retirement benefit for Milwaukee County Employees and Retirees. The new division will be responsible for, and accountable for, the management of the health care and pension benefits programs for Milwaukee County active employees and retirees. This will include responsibility for all business activities including contract solicitation, award and monitoring; customer service; and budgeting, accounting and financial analysis. The newly created division head position will report directly to the Director of Administrative Services. The division head will be charged with responsibility for all aspects of benefits management including recruitment, management and coordination of staff. A modification to Section 17.30(5), Milwaukee County Ordinances, will be submitted to the Personnel Committee to establish appointing and managing authority and confirmation criteria for the new position.

The Director of Employee Benefits also will report on a regular basis to the Health Benefits Advisory Committee created by County Board resolution. That Committee is charged 'to assist in development of health plans, interpret the health benefits environment, review industry trends, and serve as a County liaison to the greater community in addressing rising regional health costs.' The Director of Employee Benefits, and other staff in the new division, will work closely with the Advisory Committee in fulfilling its charge.

A Business Manager is created in the new division. To allow for the full efforts of the Director to be directed to employee benefits duties, the Business Manager shall be responsible for day-to-day administration of the Division's internal operations. These responsibilities shall include, but not be limited to, budget, contract administration, accounts payable, accounting, personnel management and training. As such, the Business Manager shall be the division's liaison to internal County offices including Corporation Counsel, Audit, Procurement, Budget, Accounting, IMSD, Facilities Management, Payroll and Risk Management.

Fiscal staff within the division will be familiar with benefits, budgeting, accounting and actuarial concepts. All staff will be cross-trained to facilitate efficient deployment based on workflow demands. In addition, a position will be created in the Department of Audit to be dedicated to auditing health care claims, health care contract compliance and financial aspects of the program.

As part of this initiative, the Controller (DAS- Fiscal) will be charged with providing the Employee Benefits Division with ongoing support as well as coordination with the Labor Relations and Fiscal Services Divisions of DAS. The Controller position is reallocated from Executive Director 2 – pay range 902E (\$95,141.81) to pay range 902E (\$106,342.08) to reflect additional responsibilities.”

5403 - Health Benefits - Hospital, Professional, Major Medical and Dental Expense

Increase \$9,943,743, from \$125,166,827 to \$135,110,570

This appropriation provides for the costs associated with the following health benefits:

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	2006 <u>Budget</u>	2007 <u>Budget</u>	2006/2007 <u>Change</u>
Basic Health Benefits, Including Major Medical	\$ 73,888,892	\$ 129,529,570	\$ 55,640,678
Mental Health/Substance Abuse/EAP Carve-Out	1,193,013	1,312,300	119,287
Employee Assistance Program	75,303	84,500	9,197
Health Maintenance Organizations (HMO)	42,537,900	0	(42,537,900)
County Dental Plan	1,435,836	1,579,400	143,564
Dental Maintenance Organizations (DMO)	2,244,800	2,469,300	224,500
Employee Health Plan Waiver	135,500	135,500	0
2005 Run Out	3,055,583	0	(3,055,583)
2005 Run Out Admin Exp	600,000	0	(600,000)
Total Health Benefit Cost	\$ 125,166,827	\$ 135,110,570	\$ 9,943,743

In 2006, the County entered into a four-year contract with Wisconsin Physician Services (WPS), Inc. to provide health insurance coverage. For 2007, the estimated expenditures for health insurance of \$129,529,570 are based on a conversion from a fully insured to a self-insured health care model. The expenditure estimate is based on actual health insurance claims data and actual enrollment data for 2006 at the time of publication. The estimate assumes an inflation/growth factor for both the overall cost of providing health insurance and number of health care contracts. Fixed costs such as administration and stop-loss insurance fees are also included in the estimate provided.

The total cost to the County may rise or fall depending on changes in the number of health care contracts and utilization. In addition, the cost estimate detailed above may change depending on the adoption of collective bargaining agreements with the County's represented employees. For 2007, the County must renegotiate collective bargaining agreements with each union, which could substantially impact health insurance costs.

The Department of Administrative Services will continue to provide quarterly reports to the Committee on Finance and Audit as to the status of health care expenditures in 2007.

A five-year comparison of budget and actual experience for all health benefits (including medical, dental, mental health, employee assistance, run outs, etc.) is as follows:

2001	\$ 71,932,968	\$ 69,619,600	(3.2)
2002	\$ 76,774,595	\$ 81,476,337	6.1
2003	\$ 80,601,606	\$ 84,875,417	5.3
2004	\$101,269,028	\$ 99,630,209	(1.6)
2005	\$112,174,416	\$ 120,243,817	7.2

5404 - Employee Group Life Insurance

Increase \$84,139, from \$1,683,661 to \$1,767,800

The group life insurance appropriation is based on the coverage amount, which in turn is based on employees' salaries. For 2007, employee group life insurance costs increase \$84,139 from \$1,683,661 to \$1,767,800.

A five-year comparison of budget and actual experience for group life insurance is as follows:

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<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 1,938,394	\$ 1,758,717	(9.3)
2002	\$ 1,449,666	\$ 1,450,167	0.0
2003	\$ 1,500,598	\$ 1,514,694	0.9
2004	\$ 1,486,866	\$ 1,799,398	21.0

5405 - Annuity - County Mandatory Contribution

2007 contribution level remains at the 2006 level of \$42,000

The budget for the County's mandatory annuity contribution relates to eligible employees who have been members of the pension system prior to January 1, 1971 at the following rates:

- 8 percent of earnings for Deputy Sheriff
- 8 percent of earnings for Elected Officials
- 6 percent of earnings for Other Employees

A five-year comparison of budget and actual experience for the annuity contribution is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 650,000	\$ 565,861	(12.9)
2002	\$ 525,000	\$ 413,645	(21.2)
2003	\$ 496,375	\$ 349,739	(29.5)
2004	\$ 417,000	\$ 233,178	(44.1)
2005	\$ 313,000	\$ 45,185	(85.6)

5406 – Retirement System Contribution – OBRA

Increase \$67,000, from \$462,000 to \$529,000

The OBRA pension contribution was established as a separate account in 2002 to differentiate from the Employee Retirement System contribution made for full-time County employees. For 2007, the contribution to the OBRA Retirement System is \$529,000.

A five-year comparison of budget and actual experience for the Retirement System Contribution - OBRA is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 250,094	\$ 250,094	0.0
2002	\$ 274,972	\$ 274,972	0.0
2003	\$ 279,727	\$ 279,727	0.0
2004	\$ 348,000	\$ 348,000	0.0
2005	\$ 365,000	\$ 365,000	0.0

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5409 - Retirement System Contribution

Increase by \$21,865,000, from \$27,400,000 to \$49,265,000

According to the Department of Audit, the average annualized pension payment for Milwaukee County retirees is \$17,600. The table below, which provides details on annualized pension payments, will be updated by the Department of Audit in June 2007 and provided to the County Executive for inclusion in the County Executive's Recommended 2008 Budget.

<u>Annual Retirement Payments</u>	<u>Number</u>	<u>Percentage</u>	<u>Cumulative</u>	<u>Average Payment</u>	<u>Total Payments</u>
\$0 to \$10,000	1,963	31.70%	--	\$5,577	\$10,946,947.56
\$10,001 to \$20,000	1,979	32.00%	63.70%	\$14,970	\$29,626,304.16
\$20,001 to \$30,000	1,385	22.40%	86.00%	\$24,548	\$33,998,619.96
\$30,001 to \$40,000	546	8.80%	94.80%	\$34,186	\$18,665,426.64
\$40,001 to \$50,000	214	3.50%	98.30%	\$44,072	\$9,431,482.68
\$50,001 to \$60,000	63	1.00%	99.30%	\$54,442	\$3,429,814.56
\$60,001 to \$70,000	26	0.40%	99.70%	\$63,375	\$1,647,760.08
\$70,001 to \$80,000	13	0.20%	100.00%	\$73,378	\$953,908.92
\$80,001 to \$90,000	1	0.00%	100.00%	\$84,107	\$84,106.56
\$90,001 to \$100,000	2	0.00%	100.00%	\$96,179	\$192,358.55
TOTAL	6,192		100.00%	\$17,600	\$108,976,729.67
Average				\$17,600	
Median				\$15,420	
Years of Service				26.1	

Note: A total of \$118.2 million in backDROP lump sum payments was issued to 898 individuals upon retirement as of April 2006. Exercising the lump sum payment option reduced subsequent annual pension payments for those individuals. The net actuarial impact of the lump sum backDROP payments and subsequent annual pension reductions has not been calculated.

Source: Department of Audit calculations from May 2006 ERS checks, annualized. *BackDROP data calculated from ERS monthly retirement reports.*

The 2007 budget provides \$49,265,000 for the County's contribution to the Milwaukee County Employees Retirement System (ERS).

The proposed budget includes issuing debt to fund the County's existing Unfunded Actuarial Liability for its pension obligations. According to the 2006 report prepared by Buck Consultants and independently reviewed by Cambridge Advisors, the County's current unfunded liability is \$455,020,000. In order to amortize this obligation on the current payment schedule, the County would need to budget in excess of \$1.25 billion during the next 28 years for the payment of this liability including \$33,542,000 in the 2007 budget.

The financing plan, as proposed, would provide an estimated \$6,250,000 in budgetary savings each year including the 2007 budget by reducing the interest accrued on the liability from 8% to current market rates of approximately 6%. In addition to the budgetary savings, funds would annually be placed in a stabilization fund which could be used to completely retire the bonds within 22 years.

In order to accomplish this financing, it will be necessary for the County to issue a combination of debt instruments. Approximately \$157 million is anticipated to be issued as Taxable General Obligation Notes

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maturing in the years 2007 through 2017. This would allow the County to maximize the amount of principal retired within the first ten years while providing annual budgetary relief.

The balance would be financed by a combination of approximately \$182 million Capital Appreciation Bonds and \$110 million in Variable Rate Notes. The Capital Appreciation Bonds defer interest payments until they mature, thereby allowing for a debt service schedule which more closely matches the amortization schedule for existing liability. The variable rate notes are recommended because they may be repaid at any time (which would be necessary should the County succeed in receiving proceeds from pending litigation); they provide a degree of future budget flexibility; and the notes can be used as a hedge against fluctuation in investment earnings on the assets of the pension fund.

A change in State Statutes is required in order to use the preferred financing mechanisms to develop a pension obligation bond proposal. This includes, but may not be limited to, the authority to issue 30-year debt (to match the current unfunded liability amortization period) and to use alternative debt instruments (other than general obligation bonds) to develop a proposal that reduces the County's risk and maximizes its financial flexibility. A pension obligation bond work group ("Work Group") shall be established that consists of staff from the Department of Administrative Services, Corporation Counsel, Department of Audit, the County Board Fiscal and Budget Analyst, an actuary, outside bond counsel and financial advisors. Intergovernmental Relations staff, working in conjunction with the Work Group, shall seek State policymaker approval of the financing mechanisms needed to construct a pension obligation bond proposal.

The Work Group shall develop a recommended pension obligation bond proposal for review and approval by the Committee on Finance and Audit and County Board of Supervisors. It is understood that any proposal will be dependent on securing the needed changes to State law and a credit market that is favorable to the proposed plan. The proposal shall be accompanied by a report by the Work Group that provides a comprehensive assessment of the potential risk to the County, including an actuarial assessment of the impact to the Employees' Retirement System. As part of the due diligence prior to any pension obligation bond issuance, the Pension Board's actuary will also examine all current assumptions related to the calculation of the pension funds' assets and liabilities. This includes, but is not limited to, the assumed rate of investment return, amortization periods, individual employees salary growth assumptions and potential "smoothing" of any previously enacted assumption changes. It is anticipated that this review could reduce the County's required pension contribution for 2007 by an additional \$3.5 million. The total savings in the 2007 pension contribution is \$9.75 million; \$6.25 million due to the pension obligation bonds and \$3.5 million due to a review and change in current assumptions that impact funding requirements. A \$100,000 appropriation is included in Org. Unit No. 1950 – Employee Fringe Benefits to pay for consultant costs not covered elsewhere in the budget. The Corporation Counsel shall administer all services rendered and charged to this appropriation.

To the extent that the pension obligation bond is not issued or does not generate the expected contribution savings, or the actuary's review does not result in a change in assumptions or "smoothing" of previous changes that generates the anticipated savings, an under funding of the pension contribution will occur.

5416 - Medicare Reimbursement to Retired Employees

Increase \$546,623 from \$5,329,377 to \$5,876,000

This account provides for County payment of the Medicare Part D premium for retired employees, including their eligible beneficiaries over age 65, who retired with 15 or more years of pension-credited service or are on Disability Medicare. The actual cost of the premium will not be finalized by Congress until November.

A five-year comparison of budget and actual experience for Medicare reimbursement to retired employees is as follows:

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<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 2,752,582	\$ 2,898,726	5.3
2002	\$ 3,320,970	\$ 2,930,049	(11.8)
2003	\$ 3,714,216	\$ 3,805,265	2.5
2004	\$ 4,028,728	\$ 4,007,933	(0.5)
2005	\$ 4,610,081	\$ 4,662,442	1.1

Under the Medicare Prescription Drug Improvement and Modernization Act of 2003 and implementing regulations at 42 C.F.R. subpart R (Medicare Part D), the County estimates revenue of approximately \$2.0 million in 2007. This revenue will be deposited into a non-departmental account (Org. Unit 1969—Medicare Part D Revenue).

6148 - Health Benefits and Retirement Contribution- Consultant Fees

Increase \$166,167, from \$183,833 to \$350,000

An appropriation of \$250,000 is included to retain outside consultants to assist the Department of Administrative Services – Employee Benefits staff in actuarial analysis, ad hoc reporting, requests for proposal and contract/rate negotiations, and other areas where an additional expertise in health care advisory services may be needed.

In addition, a \$100,000 appropriation is included in Org. Unit No. 1950 – Employee Fringe Benefits to pay for consultant costs not covered elsewhere in the budget related to the Retirement System Contribution (Object 5409 see pages 5 through 6 above). The Corporation Counsel shall administer all services rendered and charged to this appropriation.

6804 - Local Transportation (Transit Pass Program)

Increase \$198,042, from \$342,162 to \$540,204

An appropriation of \$540,204 is included to cover the continuation of the County's corporate transit pass program based on 763 enrollees. The County (as the employer) purchases quarterly passes for \$177.00 each. For 2007, the employee reimburses the County \$88.50 (or 50 percent of the total cost of the pass) per quarter/\$29.50 per month through a payroll deduction.

8299 – Other Contributions

2007 contribution level remains at the 2006 level of \$1,328,084.

Costs associated with the County's obligation to United Regional Medical Services in the amount of \$1,328,084 for pension-related expenses from the closure of John L. Doyne Hospital are included in this budget for 2007.

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